

Tutors' marking guidance notes - November 2017 SBM

Question 1 – Gemstone	MAX	HEAD ROOM	Mark analysis
<p>1A Prepare a forecast of the value of the GJ equity at 31 December 2017 and 31 December 2020 and provide supporting explanations.</p>	22	26	<p>1 Report format <u>At 31/12/2017</u> 2 Revenue 2 Operating costs 2 Rent (400 and 150) (<i>give 1 for 550</i>) 2 Depreciation (deduct then add back) 1 Tax 1 CAPEX 1 Leaseback proceeds (£5.5m) 1 Deferred consideration 1 Workshop and refurbishment 1 Discounting 1 Enterprise and equity values <u>At 31/12/2020</u> 1 PV future flows – enterprise value 2 Cash flow and surplus cash 1 Equity value</p> <p>6 Explanations</p>
<p>1B Identify and explain the key potential benefits and risks of the MBO for each of the following stakeholders:</p> <ul style="list-style-type: none"> • ICF • The MBO team • Farmley Bank 	12	13	<p>5 ICF 5 MBO team 3 Farmley Bank</p>
<p>1C Set out the key financial, commercial and operational due diligence procedures.</p>	7	8	<p>4 Financial 2 Commercial 2 Operating</p>
<p>1D Explain the financial reporting implications for GJ from each of the strategies.</p>	8	9	<p>2 Sale of the workshop 1 Refurbishment 1 Inventory management 4 Sale and Leaseback 1 Provision (or other relevant point)</p>
<p>1E Ethical issues arising. Explain the actions that should be taken by CEO; FD and ICF.</p>	9	9	<p>5 <u>Ethical issues</u></p> <ul style="list-style-type: none"> • Conflict of interest (or self interest) • Transparency • Establish the facts; legality. <p>4 <u>Actions</u></p>
TOTAL MARKS	58	65	

Question 2 – Hayfield

	MAX	HEAD ROOM	Mark analysis
<p>2A Prepare a statement which reconciles actual operating profit and budgeted operating profit for the year ended 30 September 2017</p> <p>Prepare notes of the reconciling factors</p>	16	18	<p>2 Automation 2 Sales volume 1 Price 3 Foreign exchange 1 Fixed costs 1 Distribution and admin 1 Structure & reconciliation</p> <p>7 Notes (1 mark for each factor plus 1 mark for conclusion)</p>
<p>2B Explain,</p> <ul style="list-style-type: none"> • Why loss was made on FOREX hedging. • Financial reporting of FOREX loss. 	7	8	<p>4 Why FOREX loss was made 4 FR treatment</p>
<p>2C Compare and evaluate the alternative strategies for expanding into South Africa, Potential benefits and risks</p>	7	8	<p>5 Joint arrangement 2 Subsidiary 1 Conclusion</p>
<p>2D Financial reporting</p>	6	7	<p>4 Joint arrangement 3 Subsidiary</p>
<p>2E Assurance</p>	6	6	<p>2 Risks 4 Procedures</p>
TOTAL MARKS	42	47	